

When I was appointed minister of labor and social security, my team and I hit upon a simple, yet radical way to keep the idea of a national retirement system, but change the way it is structured. Every worker's payroll taxes, we proposed, could go into a private, individual pension account that would be his own property. His money would be invested in professionally managed funds of stocks and bonds. If he changed his job, his retirement accounts would move with him. These would fuel—and keep up with—a growing economy, yielding a far better pension income than if the same sums went to the government.

Here's how the Pension Savings Account (PSA) system works. To start with every working man and woman gets a PSA passbook to keep track of how much as accumulated and how well the investment fund has performed.

To manage these growing assets, individuals choose freely among a number of private companies that invest in a diversified, low-risk portfolio of stocks and bonds. Since workers can change freely from one company to another, they compete to provide better customer service and lower commissions. Many have user-friendly computer terminals where individuals can calculate the value of their pensions or find out how much to deposit in order to retire at a given age.

The companies are regulated by the government and there's also a safety net: the state guarantees a minimum pension if the worker's savings fall short.

The PSA system changes the very notion of what a pension is. For example, Chile no longer has a right legal retirement age. People can retire whenever they want, as long as they have sufficient savings in their accounts for a "reasonable pension" (50% of average salary of the previous 10 years, as long as it is higher than the minimum pension). If they want to, they can continue working without contributing to the plan after their pension begins. No longer is anyone forced to leave the labor force—or work on the black market—because he draws a pension.

The result? Today Chile's private pension system has accumulated an investment fund of some \$30 billion, in a country of only 14 million people and a gross domestic product of only \$70 billion. As University of California economist Sebastian Edwards noted, the system "has contributed to the phenomenal increase in the country's savings rate, from less than 10% in 1986 to almost 29% in 1996."

Chilean people have reaped a rich harvest. The average worker has earned 12% annually after inflation, and pensions today are much higher than under the old system nearly 80% of annual income over the last 10 years of working life.

Can this system work in Europe? Some economists assert that it can't. Let's examine their objections.

"The transition to an investment-based system is too costly." If today's worker's taxes get redirected into individual retirement funds, critics wonder, who will pay the pensions of today's retired workers? In Chile, we covered the guarantees to already retired workers in several ways. The government issued new bonds, which spread some of the cost over the generations. Privatization of state-owned business, and a reduction in government spending elsewhere, were also important. We levied a small temporary transition tax; and the economic growth unleashed by the PSA system brought in greater overall tax revenues.

In the meantime, during the transition, everyone contributing to the old system could remain in it, but those who moved had their rights to partially accrued pension. Income guaranteed by the government. All new entrants by the work force were required to go into the PSA system.

"Operating costs of an investment-based system are higher." True, professional pension fund managers do have advertising and investment costs that tax-and-spend government programs run by civil servants do not incur. But the costs are low—and are dwarfed by the higher returns the PSA system generates.

"Private pensions are less reliable and safe." In fact, it's hard to consider the present setup reliable, with governments increasing taxes and decreasing payouts. The investment results of private funds cannot be guaranteed. But all studies of past performance show that the long-term gains of a well-chosen portfolio of bonds and equities have been far greater than that of paygo systems. The government supervises the investment companies, and of course the fund manages themselves keep a constant watchful eye on the accounts.

EMPOWERING WORKERS

The PSA system has other benefits. For example, if this system were adopted Europe-wide, workers would not risk losing their pension rights if they left a job in one country for a job in another. Interestingly, the EU Commission is considering a change from Paygo to an investment-based retirement system for its own workers.

Harvard University economist Martin Feldstein has estimated that the value of future benefits to the American economy of privatizing Social Security pensions could reach an astounding \$20 trillion. "It is difficult to think of any other policy," he recently wrote, "that could produce such a substantial permanent rise in the standard of living of the vast majority of the population." Europe could also derive a similarly huge benefit.

I cannot emphasize enough that the PSA is not a solution of the political right or left; it empowers all workers. It allows them ownership of financial capital that many have never had, giving them a greater stake in the economy than ever before. It may seem revolutionary to suggest that Europeans give up their dependence on the state for their old-age livelihood in favor of taking their pension provision into their own hands. Nevertheless, millions of people in countries such as Peru, Argentina, Colombia, Bolivia, El Salvador, and Mexico have already done so, with excellent results for themselves, their economies and their societies.

To all who say it cannot be done, my reply is twofold: it has been done, and—considering the ruinous state of Europe's pensions financing—It must be done.

THE FUTURE OF TAIWAN

HON. BENJAMIN A. GILMAN

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, August 6, 1998

Mr. GILMAN. Mr. Speaker, today I received a copy of a speech by the President of the Republic of China, Taiwan, Lee Teng-Hui, which he delivered before the Thirteenth Plenary Session of the National Unification Council on July 22, 1998.

Minister Lee's speech outlines his thoughts and aspirations for the future of Taiwan, especially the question of unification with the People's Republic of China. His remarks are thought-provoking and insightful and considering the interest in the future of Taiwan in this body, I urge my colleagues to read President Lee's speech.

Accordingly, Mr. Speaker, I ask that President Lee's speech be inserted at this point in the CONGRESSIONAL RECORD.

CLOSING REMARKS TO THE THIRTEENTH PLENARY SESSION OF THE NATIONAL UNIFICATION COUNCIL BY LEE TENG-HUI, PRESIDENT, REPUBLIC OF CHINA

Vice Chairman Lein; Vice Chairman Siew; Vice Chairman Hsu; Members of the Council; Members of the Research Council:

I would first like to thank everyone again for attending the conference today. We have just heard reports from Minister Hu, Chairman Chang and Director General Yin. These reports have inspired ample discussion of the foreign relations of the Republic of China, the cross-strait relationship, and communist China's strategic maneuvers toward Taiwan. In total, councilors have expressed their views. I already have made note of these valuable opinions and will request the Executive Yuan to study them further. Thank you for your advice.

Since assuming the office of President, I have on many occasions declared that the future of the nation is an issue of utmost seriousness; not a romantic aspiration. Today, we stand poised to forge ahead into the 21st century, working toward national development on a grander scale. At this pivotal point, we must all give rational and pragmatic thought to this matter of epochal importance.

On the eve of the new century, let us look back on the state of our world. The Cold War has faded into history, and communism is in full retreat. Even though communism and one-party rule remain entrenched on the Chinese mainland, the system is facing strong demands for change both from within and without. Try as they may, the mainland authorities cannot check or deflect these demands. The tide of democracy defies obstruction. Indeed, we believe that Peking has no choice but to squarely face this global trend and adopt thorough reforms.

Therefore, we must take this opportunity to once again state clearly and solemnly: China must be reunified. However, this reunification must be under a system of democracy, freedom and equitable prosperity that will safeguard the rights and interests of all Chinese, and is in keeping with the global trend. The nation should, by no means, be reunified under the proven failure of communism or the so-called "one country, two systems" formula.

Our position on this issue is firmly grounded in our belief that:

First, reunification under communism or the "one country, two systems" formula will not help bring democracy to the whole of China. Instead, it will send the people of the mainland even further from their aspirations to enjoy a democratic way of life.

Second, only if China is reunified under a democratic system can the strengths of Taiwan, Hong Kong and the Chinese mainland be forged together as a force for regional stability. A reunified China that is closed and autocratic would necessarily provoke anxiety in neighboring countries, upset the power balance in Asia and threaten the peace and stability of the Asia-Pacific region.

Third, only the implementation of a comprehensive democratic system, through the rule of law and transparent political processes, will mutual trust be enhanced between the two sides. And only democracy will ensure that both sides in fact honor their agreements and guarantee a new win-win situation.

Once again, we resolutely reject the so-called "one country, two systems" scheme. It has a number of fundamental flaws, the first of which is ambiguity. While the formula seems to offer two equal systems, in fact makes a very unequal distinction between central and local. The formula is also contradictory, for it seeks to wed communism with capitalism. Finally, the "one

country, two systems" model is undemocratic, power is exercised from the top down, not from the bottom up. This runs completely counter to the democratic reunification that we seek.

Hence, we further advocate that:

First, although there will be only one China in the future, at present there is "one divided China." The Republic of China was established in 1912, and although the government moved to Taiwan in 1949, the Peking authorities have never exercised jurisdiction over Taiwan. That the two sides of the Taiwan Strait are ruled by two separate political entities is an objective fact that cannot be denied.

Second, the reunification of China should proceed in a gradual and orderly fashion. When the conditions are ripe, success will come naturally. No timetable need be set. The pace of democratization on the Chinese mainland and the improvement of cross-strait relations will decide the progress towards peaceful reunification.

Third, prior to reunification, the people of the Republic of China on Taiwan should possess the right to full self-defense. This is the inherent right of the 21.8 million people on Taiwan. It is also necessary to preserve the achievements of democratic reform in the Taiwan area and encourage democratic change on the Chinese mainland.

Fourth, in light of the needs for survival and development, the people of the Republic of China on Taiwan should enjoy the right to participate in international activities as they did in the fifties and sixties. This way, the people on both sides will have equal opportunity to contribute to the international community.

Fifth, Taiwan and the mainland should expand exchanges and enhance the prosperity of both sides. Cooperation should replace antagonism, and reciprocity should dissolve animosity. In this fashion, a propitious foundation can be laid for the future peaceful reunification of China.

Finally, the two sides should pursue full communication on the principles of equality and mutual respect in order to resolve differences and seek common ground. They should hold consultations based on the reality of a divided China and sign a cross-strait peace agreement, thereby ending the state of hostility, promoting harmony in cross-strait relations, and preserving the stability of the Asia-Pacific region.

Over the past ten years, the ROC government has followed a positive and pragmatic mainland policy in an effort to promote salutary cross-strait interaction and move towards democratic reunification. As early as May 1991, I declared an end to the Period of National Mobilization for Suppression of the Communist Rebellion, thereby formally renouncing the use of force as a means of resolving the issue of reunification. Also over the past decade, the ROC has established the National Unification Council the Mainland Affairs Council, and the Straits Exchange Foundation. Up to the present, the two sides have held eighteen rounds of talks. At the same time, we have actively worked to build the necessary legal foundation and put cross-strait exchanges on a proper legal track.

From 1987 through the beginning of this year, residents of Taiwan have made more than 12 million trips to the Chinese mainland. By 1997, the amount of trade between the two sides had reached US \$26.4 billion—sixteen times greater than the 1987 figure. Meanwhile, entrepreneurs from Taiwan have agreed to invest more than US \$38.1 billion on the Chinese mainland, making them the second largest source of outside investment

there. The ROC government has also raised numerous friendly and concrete proposals concerning such issues as meetings between the top leaders of both sides, cooperation in the international area, an offshore transshipment center, cultural exchanges, agricultural cooperation, and the reform of state enterprises. It is through the perseverance and hard work of the ROC that cross-strait relations have been built from the ground up. Relations have progressed without fail, and exchanges have expanded without setback. A new opportunity for peaceful cross-strait competition has been created.

What is regrettable, however, is that the Peking authorities have never been able to shake their rigid mentality. Not only have they been unable to squarely face the state of private-sector exchanges across the strait and respond to the ROC's well-intentioned expectations, but they have stepped up the promotion of a Taiwan policy that seeks to "limit (our) foreign relations, suppress (our) military, and bind (our) economy (to theirs)". This has hindered and obstructed the development of normal cross-strait relations, forcing us to adopt a counter policy emphasizing "patience over haste" and "steady progress for the long term."

Last year, the mainland authorities convened the 15th National Congress of the Chinese Communist Party and the First Plenary Session of the Ninth People's Congress, during which their new leadership was formed. It is our hope that this new leadership will pragmatically face up to the global trends of democracy, globalization, and information in the 21st century, and demonstrate the broadness of mind and new vision necessary to bring about a new era of reciprocity and mutual trust between Taipei and Peking, thereby achieving win-win for both sides.

In fact, the accumulated experience over decades of the Republic of China on Taiwan in the areas of political, economic and social development would serve as a more valuable reference for the Chinese mainland than that of any other country. In particular, the ROC's tangible success in realizing democracy fully demonstrates that Chinese people are capable of implementing democracy. We are pleased to see that the mainland authorities have in recent years undertaken the promotion of grass-roots democracy in some areas. Furthermore, we look forward to even more active efforts on the part of Peking to carry forward political reforms in order to widen the scope and degree of democracy, further release the wisdom and energy of the residents of the mainland, and establish a diverse, open and modern society.

Just recently, U.S. President Bill Clinton traveled to the Chinese mainland, and his visit brought new changes to the relationship between Washington and Peking. On the mainland, he spread the messages of democracy, freedom, human rights, market economy, open society, and peaceful dialogue. The visit has been the focus of much concern, and all expect it to lead to a more diversified, democratic, and free Chinese mainland that will return to the right side of history.

We have surely taken note of the possible impact that President Clinton's remarks may have on interaction across the Taiwan Strait, as well as on our efforts to promote pragmatic diplomacy. The ROC government agencies concerned certainly will not ignore the importance that the public attaches to these developments, will carefully assess the effects and respond appropriately. However, in light of the strong ties and close friendship between the ROC and the U.S., as well as our common ideals and interest in the

pursuit of democracy, freedom, human rights, peace, and prosperity, we are confident that through the cooperation and efforts of people in both nations, ROC-U.S. relations will continue to grow stronger. Only by allowing the enhancement of ROC-U.S. relations, the improvement of cross-strait relations, and the development of ROC-PRC relations to proceed in tandem, can we establish what President Clinton referred to last October as a healthy framework for a triangular relationship. And only in this way can we ensure peace and prosperity in the Asia-Pacific region.

The ROC has spared no effort to establish mutual trust and enhance positive interaction between the two sides of the Taiwan Strait. Although three years ago Peking unilaterally suspended bilateral consultations between the two sides, Taipei has never abandoned hope for dialogue. In April of this year, the Straits Exchange Foundation and the Association for Relations Across the Taiwan Strait held talks and reached an agreement to have Mr. Koo Chen-fu visit the Chinese mainland this autumn. It is my earnest hope that the two sides will take advantage of this opportunity to engage in a frank exchange of views in order to resume institutionalized consultations and formulate a feasible blueprint for the improvement of bilateral relations and the democratic reunification of China.

Ladies and gentlemen: Since the day it was founded, the Republic of China has faced incessant challenges. Since the government relocated in Taiwan, the ROC has existed for a long time in an environment made difficult by military threats and diplomatic isolation. However, under the concerted efforts of its government and people, the Republic of China has overcome the obstacles and built the world-acclaimed "Taiwan experience." Today, the ROC stands as a top-ranking nation in terms of gross national product, per capita income, economic growth rate, foreign exchange reserves, total trade volume, total outbound investment, and level of technological development. The ROC is also a rare example in modern history; one that was able to successfully achieve democratization while maintaining economic development and social stability. Thus, it is my deeply held belief that the most significant aspect of the "Taiwan experience" lies in the dauntless courage of the government and people of the ROC and their ability to work hard together and constantly make adjustments in order to overcome all difficulties.

In the larger perspective, the "Taiwan experience" represents not only the cooperative fruits of the 21.8 million hardworking people on Taiwan, but also a valuable asset for all Chinese people. It is the developmental experience achieved by Chinese people, with Chinese knowledge, on Chinese land, and most suitable to the conditions of the Chinese nation. We are willing to share this experience with our fellow compatriots on the mainland. We hope that with successive democratization, modernization, and the rule of law on both sides, Taiwan and the mainland can work together to create a free, democratic and equitably prosperous new China.

Your active discussions today serve as an excellent source of valuable opinions on current mainland policy and the future of China. I am confident that after a full exchange of views at all levels of society, we will certainly be able to form an even broader consensus and work toward the grand task of reunifying China under democracy.

In closing, I would like to offer all of you my best wishes for good health and happiness. Thank you.